

Message Text

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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-01

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 6489

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 6991

EO 11652: GDS

TAGS: EINV, EFIN, IMF, EMIN, IBRD, PE, US

SUBJECT: MARCONA NATIONALIZATION - FINANCE MINISTER VARGAS'
TRIP TO WASHINGTON, "THE FINANCIAL GAMBIT"

REF: A) STATE 200651, B) LIMA 6864, C) LIMA 6804, D) LIMA 5832

1. SUMMARY: CARLOS ROMERO, CHIEF OF PROJECT EVALUATION IN THE MINISTRY OF ECONOMY AND FINANCE, TALKED TWICE TO AN EMBASSY OFFICER TO EXPRESS HIS MINISTRY'S CONCERN OVER EFFECT OF MARCONA NATIONALIZATION ON PERU'S ACCESS TO BILATERAL AND MULTILATERAL CREDIT. ROMERO SAID THAT FINANCE MINISTER VARGAS GAVILANO DOES NOT PLAN TO RAISE THE MARCONA ISSUE DURING OFFICIAL DISCUSSIONS WITH IBRD AND IDB NEXT WEEK, BUT HE IS FULLY AWARE OF CONSEQUENCES FOR PERUVIAN ACCESS TO CREDIT SHOULD IMPASSE NOT BE RESOLVED. VARGAS ALSO PLANS DISCUSSIONS WITH EXIMBANK AND AID ON LIST OF PERUVIAN PROJECTS. EMBASSY OFFICER SUGGESTED, AND ROMERO AGREED, THAT IT WOULD BE USEFUL FOR VARGAS TO DISCUSS THE MARCONA ISSUE WITH DEPARTMENT OFFICIALS AND ROMERO PLANS TO SUGGEST SUCH A CALL TO THE MINISTER.

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2. ROMERO EXPLAINED THAT NEITHER THE FINANCE MINISTER

NOR THE PRIME MINISTER MORALES BERMUDEZ ARE YET PREPARED TO TACKLE THE MARCONA ISSUE HEAD-ON, SINCE THEY LACK DIRECT INFORMATION FROM LENDING INSTITUTIONS ABOUT THE ECONOMIC EFFECTS OF A FAILURE TO SETTLE THE ISSUE. ROMERO SPECULATED THAT ONLY UPON VARGAS' RETURN TO PERU (ON OCT. 2) WOULD THE INTER-MINISTERIAL ECONOMIC AND FINANCIAL AFFAIRS COMMISSION (CIAEF), HEADED BY THE PRIME MINISTER, BE ABLE TO FOCUS ON THE MARCONA ISSUE. AT THIS STAGE, THE ISSUE COULD THEN GO TO THE CABINET AND THE PRESIDENT FOR A FINAL DECISION. ROMERO SAID THAT BROUSSET TOLD HIM THAT THE DECISION TO SUSPEND DISCUSSIONS WITH MARCONA LAST WEEK (SEE REF B) WAS MADE "AT THE HIGHEST POLITICAL LEVEL" AND THE RESOLUTION OF THE ISSUE WAS NOW OUT OF THE HANDS OF THE TECHNICIANS ON THE GOP TEAM. END SUMMARY.

3. FINANCE MINISTER'S SHOPPING LIST - CARLOS ROMERO, AT HIS OWN INITIATIVE, TALKED AT LENGTH TO EMBASSY OFFICER ON AUGUST 23 AND AGAIN ON AUGUST 26 ABOUT FINANCE MINISTER'S CONCERN OVER THE EFFECTS OF THE MARCONA NATIONALIZATION ON PERU'S ACCESS TO BOTH U.S. AND IFI CREDIT. ROMERO NOTED THAT PERU HAS PREPARED LISTS FOR DISCUSSION IN WASHINGTON WITH IDB, IBRD, EXIM, AND AID FOR MASSIVE AMOUNTS OF POTENTIAL CONCESSIONAL CREDITS. HE GAVE EMBASSY OFFICER THE FOLLOWING APPROXIMATE FIGURES:

EXIMBANK (1975-77) - \$477.9 MILLION; IBRD (1975-76) \$200 MILLION; IDB (1975-76) \$170 MILLION. HE NOTED THAT, GIVEN PERU'S TIGHT BUDGETARY SITUATION, PERU NOW LACKS SUFFICIENT COUNTERPART FUNDS TO FINANCE PROJECTS ON A 50-50 BASIS AND WOULD SEEK 60 PERCENT OF TOTAL PROJECT COST IN EXTERNAL FINANCING, WITH ONLY 40 PERCENT IN COUNTERPART.

4. USG PRESSURE BEING FELT - ROMERO SAID THAT HIS MINISTRY HAS ALREADY RECEIVED INFORMATION THAT USG IS PREPARING TO TAKE STEPS TO REDUCE PERU'S ACCESS TO EXIM'S WINDOW AND SHOWED EMBASSY OFFICER A REPORT HE HAD PREPARED FOR HIS MINISTER NOTING THAT PERU'S EXECUTIVE DIRECTOR IN THE IBRD, CARLOS SANTISTEBAN, HAD REPORTED THAT "EXIM IS UNDER INTENSE PRESSURE" TO CLOSE OUT LOANS TO PERU BECAUSE OF CONFIDENTIAL

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THE MARCONA NATIONALIZATION. HE ALSO SAID THAT THE VISITING IBRD MISSION PRESENTLY ANALYZING THE PERUVIAN ECONOMY HAD ALSO MENTIONED THE MARCONA ISSUE TO THE MINISTRY.

5. ROLE OF FINANCE AND PRIME MINISTERS IN RESOLVING MARCONA ISSUE - ROMERO SAID THAT HE GATHERS THAT THE PRIME MINISTER HAD NOT BEEN INVOLVED DIRECTLY IN THE MARCONA AFFAIR TO DATE BECAUSE HE LACKS SUFFICIENT

INFORMATION TO MAKE A CONVINCING CASE TO PRESIDENT VELASCO.
(HE IMPLIED, IN EFFECT, THAT MORALES BERMUDEZ REALIZES
FULL WELL THE CONSEQUENCES OF A CONFRONTATION WITH THE
U.S., BUT FIRST WANTS A DIRECT REPORT FROM VARGAS AS TO
THE ATTITUDE OF THE USG AND THE IFI'S BEFORE CONFRONTING
THOSE WHO DO NOT WANT A SETTLEMENT.)

6. MEETINGS IN WASHINGTON - EMBASSY OFFICER SUGGESTED
THAT IT WOULD PROBABLY BE USEFUL FOR THE MINISTER TO
DISCUSS THE MARCONA ISSUE WITH DEPARTMENT OFFICIALS
DURING HIS STAY IN WASHINGTON. ROMERO AGREED AND SAID
THAT HE WOULD SUGGEST THIS TO THE MINISTER TODAY. ROMERO
AGREED THAT SUCH A MEETING WOULD BE ARRANGED THROUGH THE
PERUVIAN EMBASSY IN WASHINGTON. HE ALSO SAID THAT VARGAS
ALREADY PLANS TO TALK DIRECTLY TO EXIM AND HE PRESUMED
THAT A MEETING IS BEING ARRANGED THROUGH SANTISTEBAN.
ROMERO SAID THAT, DURING DISCUSSIONS WITH IDB AND IBRD,
VARGAS DOES NOT PLAN TO RAISE THE MARCONA ISSUE AND TO
MAKE AN APPEAL TO THESE INSTITUTIONS TO CONSIDER PERU'S
REQUESTS ON "THEIR ECONOMIC MERITS WITHOUT ANY POLITICAL
CONSIDERATIONS."

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C O N F I D E N T I A L SECTION 2 OF 2 LIMA 6991

7. CUTTING THE GORDIAN KNOT - ROMERO SAID THAT TO DATE

COAP HAS NOT BEEN SEIZED WITH THE MARCONA ISSUE, AND HE PRESUMED THAT THE ORIGINAL AUTHORIZATION TO DISCUSS TERMS AND CONDITIONS WITH MARCONA CAME DIRECTLY FROM THE PRESIDENT. (HE ALSO COMMENTED THAT, CONTRARY TO THE COMMONLY HELD VIEW THAT VELASCO DOES NOT FOLLOW ECONOMIC AFFAIRS CLOSELY, THE PRESIDENT IS VERY MUCH AWARE OF PERU'S NEED FOR CONCESSIONAL CREDIT. HE SAID THAT, FOLLOWING THE IBRD MEETING IN PARIS, VELASCO ASKED THE FINANCE MINISTRY TO PREPARE A LIST OF EACH PROJECT AND THE OFFICIAL RESPONSIBLE FOR IT AND THAT VELASCO WOULD BE USING THE LIST TO CALL EACH WORKING-LEVEL OFFICER PERSONALLY. HE ADDED, WITH SOME RELIEF, THAT THE PRESIDENT HAS NOT YET CALLED HIM.) THUS, IN ROMERO'S JUDGMENT, WITH THE INFORMATION VARGAS BRINGS BACK FROM WASHINGTON, VARGAS, AND THE CIAEF, WITH DIRECT SUPPORT FROM THE PRIME MINISTER, WILL BE ABLE TO MAKE AN AIRTIGHT CASE THAT PERU CANNOT AFFORD A CONFRONTATION WITH THE U.S. AND SOME MEANS OF SETTLEMENT WILL BE WORKED OUT.

8. COMMENT: ROMERO IS A BRIGHT AND ABLE TECHNICIAN WHO MORE THAN MOST (EVEN IN THE FINANCE MINISTRY) REALIZES CONFIDENTIAL

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THE ECONOMIC (AS WELL AS POLITICAL) CONSEQUENCES OF A CONFRONTATION WITH THE U.S. HE WAS OBVIOUSLY UNDER INSTRUCTIONS FROM HIS SUPERIORS, PROBABLY VICE MINISTER KEIL, TO RAISE THE MARCONA ISSUE WITH THE EMBASSY. THE PROBLEM WITH ROMERO'S SCENARIO IS THE TIME FACTOR, WHICH IS A POINT THE EMBASSY OFFICER MADE REPEATEDLY TO ROMERO. IT SEEMS EVIDENT THAT, AT LEAST TO DATE, MORALES BERMUDEZ DOES NOT BELIEVE THAT HE HAS SUFFICIENT "AMMUNITION" TO CONFRONT VELASCO AND THE HIS RADICAL ADVISERS WHO APPARENTLY SUPPORT A NATIONALISTIC POSITION OF NO RETREAT ON MARCONA. THUS, THE PRIME MINISTER'S REFUSAL TO RECEIVE THE AMBASSADOR SINCE HE WOULD, IN EFFECT, HAVE TO DISSEMBLE TO US. FURTHER, IF MORALES BERMUDEZ WANTS TO WAIT UNTIL VARGAS CAN BRING BACK TO PERU "THE COLD, HARD, ECONOMIC FACTS OF LIFE" BEFORE MORALES BERMUDEZ DECIDES TO PLAY A DIRECT ROLE, THIS MAY WELL BE AN INDICATION THAT THE PRIME MINISTER DOES NOT FEEL THAT HE POSSESSES ENOUGH SUPPORT WITH THE CABINET TO TAKE AN ACTIVE ROLE AT THIS TIME.

9. ROMERO'S PRESENTATION UNDOUBTEDLY IS AN ACCURATE REFLECTION OF HIS VIEWS AND PROBABLY THOSE OF THE FINANCE MINISTRY AS A WHOLE. HOWEVER, WE NOW HAVE SEPARATE INDICATIONS BOTH FROM FORMER-AMBASSADOR BERCKEMEYER AND CESAR DELGADO (BEING REPORTED SEPTELS) THAT THE MARCONA ISSUE IS OF CONCERN AT THE HIGHEST LEVELS.

DELGADO, FOR ONE, TOLD THE ADCM THAT RESOLUTION OF THE
ISSUE COULD NOT AWAIT THE RETURN OF FINANCE MINISTER
VARGAS FROM WASHINGTON. IN ADDITION, IT IS DOUBTFUL
WHETHER WE OR MARCONA CAN AFFORD TO WAIT UNTIL OCTOBER.
FINALLY, ROMERO'S PRESENTATION MAY HAVE BEEN MADE TO
CONVINCE US THAT THE WHEELS GRIND SLOWLY HERE AND
WAS DESIGNED TO FORESTALL A RAPID USG DECISION
ON THE CASE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, CREDIT, DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LIMA06991
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750295-0784
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750818/aaaaapqr.tel
Line Count: 232
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 200651, 75 LIMA 6864, 75 LIMA 6804, 75 LIMA 5832
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 28 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 MAY 2003 by ShawDG>; APPROVED <08 OCT 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MARCONA NATIONALIZATION - FINANCE MINISTER VARGAS' TRIP TO WASHINGTON, "THE FINANCIAL GAMBIT"
TAGS: EINV, EFIN, EMIN, PE, US, IMF, IBRD, IDB, XMB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006